



# Blackstone

Diversified Minerals / Switzerland

## H1 benefited from asset disposal gains

Earnings/sales releases - 05/10/2020

While the pandemic has delayed the initiation of operations at various assets, Blackstone did well in H1 20 to monetise its under-development Norwegian rare earth metal asset. By virtue of this transaction, the group also managed to reduce its borrowings materially. Add on top the R&D progress in batteries of recent months, it seems that the group is on the right track.

### Fact

Given the COVID-19 disruption, the kick-start of Blackstone Resources' various operational assets (reflecting in respective segments) has been delayed, again resulting in 'nil' H1 20 sales. Nevertheless, the group reported H1 net profit of c.CHF20m (vs. CHF5.1m in H1 19) – single-handedly driven by the profit from the disposal of the stake in its rare earth metal asset in Norway. As a result, 'reported' EPS came in at CHF0.46 per share. Interestingly, the group has a buy-back option for the disposed asset, and is also entitled to a 2% royalty until 2030.

Blackstone ended H1 with net debt of CHF8m (vs. CHF29m at 2019-end). On the other hand, the book value of equity (ex. minorities) increased (74% vs. 2019-end) to CHF45m.

### Analysis

#### While core operations are yet to begin, ...

According to management, the pandemic has hampered the start of operations at the Peruvian gold milling plant – especially given the impact of preventive and punitive lockdown measures. Similarly, the progress at other divisions has also been negatively impacted. While the initiation of the gold refinery amid prevalent precious metal tailwinds would have been a valuable cash flow support – particularly for the funding-hungry battery R&D, the material reduction in borrowings (discussed above) is a comforting development. In such a scenario, the possibility of 'delayed' cash flows precipitating a debt and/or financing squeeze has been averted – at least for the immediate term.

#### ... global economies' greener priorities and ...

Despite fears of a pronounced global slowdown, most economies – barring the funding-deprived ones – have reinforced their 'green transition' plans. In fact, in many countries, the stimulus money is being directed based on the recipients' 'green' credentials. Overall, COVID-19 has further catalysed the strategic importance of key battery materials and, hence, the strong rebound in (less-polluting and/or green metal-centric) mining stocks has been an inevitable outcome.

Of course, the immediate-term disruption of demand breakdown due to market frictions like lockdowns cannot be avoided, but there is ample reason to believe that long-term prospects for battery materials are intact. In effect, Blackstone's respective mining assets are aptly-positioned to capitalise on the strong long-term market fundamentals. Remember, while First Cobalt is guided to witness recommissioning and expansion of its refinery, various other battery metal projects are simultaneously under development.



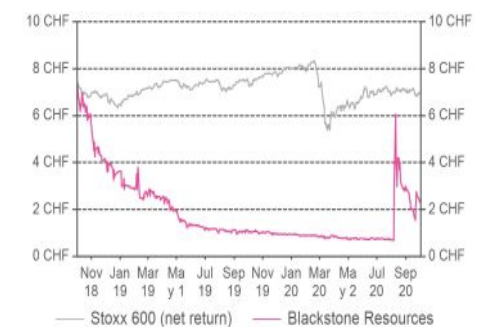
Varun SIKKA

metalsmining@alphavalue.eu  
+33 (0) 1 70 61 10 50  
cs.alphavalue.com

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<b>Buy</b>	<b>Upside: 118%</b>
Target Price (6 months)	CHF 5.10
Share Price	CHF 2.34
Market Cap. CHFM	99.9
Price Momentum	<b>GOOD</b>
Extremes 12Months	0.69 ▶ 6.05
Bloomberg	BLS SW Equity
Reuters	BLS.S

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PERF	1w	1m	3m	12m
Blackstone Resources	-7.87%	-18.8%	204%	132%
Metals & Mining	-0.95%	-2.29%	1.76%	0.88%
STOXX 600	2.02%	-2.31%	-1.52%	-3.93%

Last updated: 25/08/2020	12/19A	12/20E	12/21E	12/22E
Adjusted P/E (x)	12.8	4.20	4.64	1.91
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-84.5	43.0	3.80	1.63
Adjusted EPS (CHF)	0.13	0.56	0.50	1.22
Growth in EPS (%)	n/a	337	-9.53	143
Dividend (CHF)	0.00	0.00	0.00	0.00
Sales (CHFm)	0.02	63.2	334	561
EBITDA/R margin (%)	ns	5.96	13.2	17.6
Attributable net profit (CHFm)	5.31	23.8	21.5	52.3
ROE (after tax) (%)	26.7	64.5	26.0	31.1
Gearing (%)	123	44.0	14.6	6.79

[Company Valuation](#) - [Company Financials](#)

### ... Blackstone's R&D breakthroughs are comforting

In our last note titled “\_Important battery R&D progress\_” dated 25 August 2020, we had highlighted some of the group's battery R&D breakthroughs achieved in July 2020. Then, in mid-September 2020, the group announced the achievement of some key milestones for its proprietary 3D-printing technology to print lithium ion solid-state batteries. Management claims that this printing process entails significantly lower costs, introduces high production flexibility and increases energy density by c.20%. Overall, these developments are indicative of Blackstone's R&D efforts progressing in the right direction – with the first prototypes for printed solid-state cells guided to be tested in Q1 21. This progress comes at an opportune time, when competition from the well-established giants is intensifying. Remember, recently, Tesla has unveiled plans to almost halve the cost of batteries.

However, given that the battle is head-on with deep-pocketed peers, the realisation of state-sponsored grants becomes critical for emerging players (like Blackstone) to sustain R&D efforts. Fortunately, with global battery markets being dominated by the US (via Tesla) and Asian firms – particularly in China and Japan, Europe has a strong vested interest to nurture the creation of a home-grown battery giant, especially at a time when protectionism rhetoric is (re)gathering momentum.

### ■ Impact

Our model is under review as we incorporate the impact of the H1 20 results. While near-term operating estimates (especially in 2020) should be slashed/trimmed – given the delayed kick-start at various assets, we don't expect any major change in the target price, considering that the majority of the value still lies in the out-years – better reflected in the NAV and DCF valuation metrics. Hence, our recommendation should remain unchanged.

## Sales by Geography

## Valuation Summary

### Consolidated P&L Accounts

		12/19A	12/20E	12/21E
Sales	CHFM	0.02	63.2	334
Change in sales	%	ns	ns	428
Change in staff costs	%	24.1	382	64.9
EBITDA	CHFM	-1.73	3.77	44.2
<b>EBITDA(R) margin</b>	%	<b>ns</b>	<b>5.96</b>	<b>13.2</b>
Depreciation	CHFM	-0.52	-1.32	-20.6
Underlying operating profit	CHFM	-2.25	2.44	23.6
<b>Operating profit (EBIT)</b>	<b>CHFM</b>	<b>5.47</b>	<b>24.6</b>	<b>23.6</b>
Net financial expense	CHFM	-0.36	-0.57	-0.28
of which related to pensions	CHFM		0.00	0.00
Exceptional items & other	CHFM	-0.06	0.00	0.00
Corporate tax	CHFM	-0.11	0.00	-1.16
Equity associates	CHFM	0.00	0.00	0.00
Minority interests	CHFM	0.37	-0.26	-0.57
<b>Adjusted attributable net profit</b>	<b>CHFM</b>	<b>5.37</b>	<b>23.8</b>	<b>21.5</b>
NOPAT	CHFM	3.83	17.3	16.5

### Cashflow Statement

EBITDA	CHFM	-1.73	3.77	44.2
Change in WCR	CHFM	2.43	-3.50	-21.4
Actual div. received from equity holdi...	CHFM	0.00	0.00	0.00
Paid taxes	CHFM	-0.11	0.00	-1.16
Exceptional items	CHFM	0.06	0.00	0.00
Other operating cash flows	CHFM	-0.84	0.00	0.00
Total operating cash flows	CHFM	-0.19	0.27	21.6
Capital expenditure	CHFM	-0.17	-7.39	-73.4
Total investment flows	CHFM	2.28	-7.39	-27.0
Net interest expense	CHFM	-0.36	-0.57	-0.28
Dividends (parent company)	CHFM	0.00	0.00	0.00
Dividends to minorities interests	CHFM	0.00	0.00	0.00
New shareholders' equity	CHFM	0.13	0.00	0.00
Total financial flows	CHFM	-1.30	9.22	5.83
Change in cash position	CHFM	0.80	2.10	0.50
<b>Free cash flow (pre div.)</b>	<b>CHFM</b>	<b>-0.72</b>	<b>-7.70</b>	<b>-52.0</b>

### Per Share Data

No. of shares net of treas. stock (year...	Mio	42.7	42.7	42.7
Number of diluted shares (average)	Mio	42.1	42.7	42.7
<b>Benchmark EPS</b>	<b>CHF</b>	<b>0.13</b>	<b>0.56</b>	<b>0.50</b>
Restated NAV per share	CHF			
<b>Net dividend per share</b>	<b>CHF</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

Benchmarks	Value	Weight	Largest comparables
DCF	CHF 3.34	35%	● Umicore
NAV/SOTP per share	CHF 11.8	20%	■ Johnson Matthey
EV/Ebitda	CHF 4.68	20%	■ Boliden
P/E	CHF 4.68	10%	■ Anglo American
Dividend Yield	CHF 0.00	10%	■ Eramet
P/Book	CHF 3.41	5%	■ Glencore
TARGET PRICE	CHF 5.10	100%	

### NAV/SOTP Calculation

### Balance Sheet

		12/19A	12/20E	12/21E
Goodwill	CHFM	95.8	95.8	95.8
Total intangible	CHFM	95.8	95.8	95.8
Tangible fixed assets	CHFM	12.5	18.6	71.4
Financial fixed assets	CHFM	0.00	0.00	0.00
WCR	CHFM	-1.09	2.41	23.8
Other assets	CHFM	1.14	1.14	1.14
Total assets (net of short term liab.)	CHFM	109	119	193
<b>Ordinary shareholders' equity</b>	<b>CHFM</b>	<b>25.0</b>	<b>48.9</b>	<b>117</b>
Quasi Equity & Preferred	CHFM			
Minority interests	CHFM	48.1	48.4	48.9
Provisions for pensions	CHFM	0.07	-0.12	-0.25
Other provisions for risks and liabilities	CHFM	0.00	0.00	0.00
Total provisions for risks and liabilities	CHFM	0.07	-0.12	-0.25
Tax liabilities	CHFM	7.16	7.16	7.16
Other liabilities	CHFM			
<b>Net debt (cash)</b>	<b>CHFM</b>	<b>28.7</b>	<b>14.2</b>	<b>19.9</b>
Total liab. and shareholders' equity	CHFM	109	119	193

### Capital Employed

Capital employed after depreciation	CHFM	107	117	191
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### Profits & Risks Ratios

<b>ROE (after tax)</b>	%	<b>26.7</b>	<b>64.5</b>	<b>26.0</b>
ROCE	%	3.57	14.8	8.64
<b>Gearing (at book value)</b>	%	<b>123</b>	<b>44.0</b>	<b>14.6</b>
Adj. Net debt/EBITDA(R)	x	-16.6	3.78	0.45
Interest cover (x)	x	-6.27	4.25	82.4

### Valuation Ratios

<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>12.8</b>	<b>4.20</b>	<b>4.64</b>
Free cash flow yield	%	-1.03	-7.71	-52.1
P/Book	x	2.80	2.04	0.85
<b>Dividend yield</b>	%	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

### EV Calculation

Market cap	CHFM	70.0	99.9	99.9
+ Provisions	CHFM	0.07	-0.12	-0.25
+ Unrecognised actuarial losses/(gains)	CHFM	0.00	0.00	0.00
+ Net debt at year end	CHFM	28.7	14.2	19.9
+ Leases debt equivalent	CHFM	0.00	0.00	0.00
- Financial fixed assets (fair value)	CHFM	0.59	0.59	0.59
+ Minority interests (fair value)	CHFM	48.1	48.4	48.9
= EV	CHFM	146	162	168
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>-84.5</b>	<b>43.0</b>	<b>3.80</b>
EV/Sales	x	ns	2.56	0.50

Analyst : Varun Sikka, Changes to Forecasts : 25/08/2020.